

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2003-475

August 7, 2003

COMMUNITY SERVICE TELEPHONE
COMPANY AND NORTHLAND, SIDNEY,
STANDISH, CHINA AND MAINE
TELEPHONE COMPANIES (FAIRPOINT
COMPANIES OF NEW ENGLAND)
REQUESTS FOR APPROVAL OF
REORGANIZATION

EXAMINER'S DATA
REQUEST NO. 1

I. GENERAL INSTRUCTIONS

1. Please provide the response to each numbered request on a separate sheet of paper, or papers. Each sheet of paper should be three-hole punched.
2. For each response, please state (1) the name(s) and title(s) of the person(s) responsible for preparing the response, and (2) the name(s) and title(s) of the person(s) who are competent to give testimony concerning the response and all documents produced as part of the responses.
3. Where information requested is not available in the precise form described in the question, please provide all information with respect to the subject matter of the question that can be identified in the Utility's work papers and files, or that is otherwise available.
4. Please provide responses by noon on August 28, 2003.

II. DATA REQUESTS

1. Please provide copies of any presentations, including projected financial results, made to bond rating agencies, debt or equity analysts during 2002 and 2003.
2. Please discuss the current and expected post-merger status of CST's dividend. Please address whether CST will pay a percentage of earnings or cash flow after capital expenditures. If this policy differs from that of any other Fairpoint or MJD subsidiary, please explain the basis for any difference.

3. Please provide copies of all research reports pertaining to Fairpoint or its subsidiaries prepared by any bond rating agency or debt or equity analysts since January 1, 2002. Please consider this an on-going request and forward copies of any new reports as they are published.
4. Has Fairpoint used any consultants in the valuation of CST? If so, please provide the names of those consultants and a copy of any reports prepared by those consultants on Fairpoint's behalf.
5. If a financial model was used to evaluate the appropriate price Fairpoint should pay for CST, did the model incorporate a 13.07% Return on Equity and a common equity component of 67% of total capital? Please explain.
6. Would Fairpoint expect to request such a return and capital structure for CST's local exchange operations post acquisition? Please explain your answer fully.
7. Please provide an assessment of the impact of the proposed merger on the credit quality and capital costs of CST.
8. Please describe the anticipated sources and costs of future capital for CST post merger.
9. What is the expected date for the closing of the sale?
10. Please describe the anticipated source(s) and cost(s) of the funds to be used by Fairpoint in financing the purchase of CST?
11. Please provide a pro forma income statement, balance sheet and statement of cash flows for Fairpoint for 2003, assuming the purchase of CST does NOT occur during the calendar year.
12. How will any additional debt obtained to finance the purchase of CST affect Fairpoint's financial status?
13. Please provide pro forma balance sheets for CST and Fairpoint immediately post merger, including any goodwill, acquisition adjustment or similar entry to be made on the books of either company.
14. Does Fairpoint plan to adjust the net book value in any way of CST as a result of the proposed purchase? Please explain any proposed adjustments.

15. Is Fairpoint willing to accept as a condition of approval of the purchase that no acquisition adjustment will be included in CST's rate base, or that no acquisition adjustment will be sought in any future CST revenue requirements proceeding?
16. Please describe and provide a best estimate of all costs associated with the proposed purchase. In your response, please include all costs that would not be incurred by either the buyer or the seller, but for the proposed purchase. Costs that are associated with the financing of the transaction need not be included in this response, provided they are included in the answer to Question # 10 above. Costs that are internal to each entity, such as management time, need not be included. Please describe how CST or Fairpoint will treat these costs for ratemaking purposes?
17. Please provide a copy of or a reference to all affiliated interest agreements that will define the types of services and associated prices to be provided between or among any of the various Fairpoint Communications companies and CST.
18. Please provide an estimate, by type of charge, of all affiliated interest amounts that will be charged to or from CST during the first year that CST is owned by Fairpoint.
19. Please provide the price to book ratios of all telephone companies acquired by Fairpoint from 1999 through present. Please also provide the dollar amount by which the purchase price exceeded net book value for each acquired phone company from 1999 to present.
20. Does Fairpoint currently have any other outstanding offers or accepted agreements to purchase other telephone companies? If so, please describe, including the name and location of the entity, the purchase price or offering price, the proposed price to book ratio, the status of the offer, and the source of the funds used in the transaction.
21. Has CST or Fairpoint conducted any studies, either formal or informal, concerning cost efficiencies (resulting from operation or management efficiencies, for instance) that may result from the purchase? If so, please provide copies of the results of those studies. If no studies have been done, please describe any efficiencies that may occur and provide an estimate of the net savings involved to CST or to other Fairpoint affiliates. Please also describe when the net savings would be realized.
22. For all regulated utilities acquired by Fairpoint or its predecessor entity or any intermediate affiliate of Fairpoint since 1997, please provide the

date the acquisition was closed legally, the date it was approved (if necessary) by any state regulatory agency having jurisdiction, and the date when the first rate case was filed by the acquired company after the purchase.

23. Assuming Fairpoint is permitted to acquire CST:

A. What transport network, other network configuration, and switching changes or replacements will take place in the short and long term? Will any existing CST switches be replaced with concentrators that will not be able to function as stand alone switches if they are isolated? Please describe Fairpoint's construction plans for the CST area for the next three years. Does Fairpoint intend to integrate CST into the Maine network with its other companies (i.e. Northland, China)?

B. What changes in operating, engineering, management or other personnel are planned or under consideration for CST if it is acquired by Fairpoint? Will any current CST employees be terminated, transferred or reassigned after the purchase? If so, which positions are involved and what is the expected time frame for the changes?

C. What changes to customer service will be made in the short and long term? Will the business office and repair facilities in Winthrop remain open and operational? Will any customer service employees be terminated, transferred, or reassigned?

D. Please describe the proposed local management structure, including names of personnel, post purchase of CST. To whom will the local managers report (by position and name) within the Fairpoint organization? What authority will the local CST managers have after the purchase, i.e., what type of decisions will they be allowed to make without further approval and what types of decisions will they be specifically prohibited from making without additional corporate approval?

E. Does Fairpoint plan to make any other changes to the manner in which CST operates the regulated and non-regulated portions of its business? If so, please describe fully.

F. Does Fairpoint intend to file a rate case or equivalent type of proceeding for CST within three years of the closing of the sale? Will Fairpoint seek State USF support for CST within that time period?

G. Does Fairpoint intend to maintain a separate study area for CST for Federal USF purposes? Please explain the answer.

24. Provide a list of all Fairpoint operating companies in all states, the name of each company and the total number of lines for each company, and the amount of Federal USF currently received by each company, including CST.
25. If the FCC uses the "cost proxy" model for CST's Federal support calculation, what approximate amount of Federal USF payments do you predict it would receive?

Dated: August 7, 2003

Submitted by,

Peter Ballou
Hearing Examiner